

## Message Text

LIMITED OFFICIAL USE

PAGE 01 MANILA 13561 01 OF 02 060805Z

12

ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 CIAE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08

CEA-02 NEA-10 DRC-01 /205 W  
----- 048165

P 060708Z DEC 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9577

INFO AMEMBASSY SEOUL PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 13561

USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 3/31/74

TAGS: EAID, EFIN, KS

SUBJECT: PROPOSED ADB LOAN TO MEDIUM INDUSTRY BANK OF KOREA

SUMMARY: ADB MANAGEMENT PROPOSES \$30 MILLION  
EQUIVALENT LOAN FROM ORDINARY FUNDS TO MEDIUM  
INDUSTRY BANK (MIB) TO FINANCE FOREX COSTS OF  
MEDIUM AND LONG-TERM SUBLOANS IN MANUFACTURING,  
MINING, TRANSPORTATION AND CONSTRUCTION INDUSTRIES  
FOR NEXT THREE YEARS. LOAN WILL AUGMENT MIB'S FOREX  
RESOURCES TO FACILITATE EXPANSION AND DEVELOPMENT THESE  
INDUSTRIES. LOAN WOULD BE THIRD TO MIB FROM BANK.  
USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC. R113-73 WITH ATTACHMENTS DESCRIBING  
PROPOSED LOAN POUCHED ADDRESSEES NOV. 29. BOARD  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 13561 01 OF 02 060805Z

CONSIDERATION SCHEDULED DEC. 19.

2. ADB MANAGEMENT PROPOSING US\$30 MILLION LOAN FROM ORDINARY RESOURCES TO MEDIUM INDUSTRY BANK (MIB) OF KOREA. PROCEEDS WILL AUGMENT MIB'S FOREX RESOURCES FOR EXTENSION OF SUBLOANS TO SMALL AND MEDIUM ENTERPRISES IN MANUFACTURING, MINING, TRANSPORTATION AND CONSTRUCTION SECTORS. AMORTIZATION SAME AS FOR SUBLOANS SUBJECT TO MAXIMUM OF 15 YEARS INCLUDING 3 YEAR GRACE PERIOD, AT INTEREST RATES PREVAILING AT TIME EACH SUBLOAN IS CREDITED TO THE LOAN ACCOUNT. MEDIUM INDUSTRY BANK (MIB) TO BE BORROWER, AND EXECUTING AGENCY, AND REPUBLIC OF KOREA (ROK) GUARANTOR.

3. INDUSTRIAL SECTOR GROWTH HAS BEEN LEADING STRUCTURAL CHANGE OCCURRING IN KOREA DURING PAST DECADE, DOUBLING AS PROPORTION OF REAL GNP FROM 15 PERCENT IN 1962 TO 30 PERCENT IN 1971. FOLLOWING SLOWDOWN IN GROWTH RATE FROM SECOND HALF OF 1971 ATTRIBUTABLE TO REDUCED INVESTMENT AND DOMESTIC DEMAND, ROK ADOPTED NEW POLICIES, ESPECIALLY AUGUST 1972 PRESIDENTIAL EMERGENCY DECREE FOR ECONOMIC STABILITY AND GROWTH, WHICH RENEWED EXPANSIONARY TREND. ALTHOUGH THIRD FIVE-YEAR PLAN 1972-76 EMPHASIZES RURAL DEVELOPMENT, HEAVY AND CHEMICAL INDUSTRIAL SECTORS, SMALL AND MEDIUM SCALE INDUSTRY WILL CONTINUE PLAY KEY ROLE ESPECIALLY IN MEETING INTERMEDIATE DEMAND. IN 1971, SMALL/MEDIUM SUBSECTOR ACCOUNTED FOR 97 PERCENT NUMBER OF INDUSTRIAL ESTABLISHMENTS; 45 PERCENT OF MANUFACTURING EMPLOYMENT; 28 PERCENT OF VALUE-ADDED IN MANUFACTURING PRODUCTION; 41 PERCENT OF MANUFACTURING EXPORTS. NEW POLICIES EXPECTED TO STIMULATE FURTHER RAPID GROWTH SMALL AND MEDIUM INDUSTRY SECTOR.

4. MORE THAN HALF SMALL/MEDIUM INDUSTRIAL ESTABLISHMENTS (SECTOR SERVICED BY MIB) CONSTRAINED BY INADEQUATE OR OBSOLETE EQUIPMENT; SEVERELY LIMITED INSTITUTIONAL SOURCES LONG-TERM CREDIT. WITH LARGER ESTABLISHMENTS PRE-EMPTING LIMITED CAPITAL SOURCES, SMALL/MEDIUM SECTOR LACKING COLLATERAL NEEDED TO BORROW FROM COMMERCIAL BANKS OBLIGED RESORT TO SHORT-TERM LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 13561 01 OF 02 060805Z

HIGH INTEREST RATE "CURB MARKET" TO FINANCE EXPANSION, RAW MATERIAL PURCHASES. THIS SOURCE PROVIDED SOME WORKING CAPITAL BUT CLEARLY UNSATISFACTORY BASIS LONG-TERM INVESTMENT NEEDS.

5. GOVT, NOW FOCUSING ON SPECIAL REQUIREMENTS SMALL/MEDIUM SECTOR, HAS ADOPTED RANGE OF MEASURES CONSISTENT WITH GENERAL POLICY PRIORITIES SMALL/MEDIUM FIRMS

INCLUDING A) REDUCING INTEREST RATES ON "CURB MARKET/ LOANS (TO ABOUT 16 PERCENT OR MORE) AND EXTENDING REPAYMENT PERIODS (UP TO EIGHT YEARS); B) AUTHORIZING BANKING INSTITUTIONS TO ISSUE SPECIAL DEBENTURES UP TO WON 200 MILLION TO FACILITATE LONGER-TERM, LOWER INTEREST RATE INDUSTRIAL LOANS; C) PROVIDING GOVT CONTRIBUTIONS TO ESTABLISH CREDIT GUARANTEE SYSTEM AT MIB AND OTHER BANKING INSTITUTIONS TO FILL GAP IN COLLATERALS SMALL FIRMS REQUIRED FOR LOANS. BY AUGUST 1973, ROK HAD CONTRIBUTED WON 5.3 BILLION THESE FUNDS TO ALL BANKS, INCLUDING WON 1.0 BILLION TO MIB; D) GOVT ENCOURAGEMENT OF CONSOLIDATIONS, MERGERS, RATIONALIZING, UPGRADING TECHNOLOGY, FACILITATED BY PROVISION SEPARATE INDUSTRIAL RATIONALIZATION FUND TO PROVIDE LONG-TERM, LOW INTEREST LOANS THIS PURPOSE IN CONJUNCTION DEPRECIATION ALLOWANCES, TAX REDUCTIONS, ETC. (MIB PROVIDED WON 15 BILLION THIS PURPOSE); E) ADOPTION VARIOUS MEASURES ENCOURAGE GROWTH CAPITAL MARKET, DISCOURAGE CLOSELY-HELD FAMILY VENTURES INCLUDING GOVT AUTHORITY OBLIGE CERTAIN FIRMS SELL COMMON STOCK, OFFERING TAX INDUCEMENTS TO THOSE DOING SO VOLUNTARILY.

6. MIB IS GOVT-OWNED BANK ESTABLISHED 1961 TO PROMOTE SMALL AND MEDIUM ENTERPRISES, WITH AUTHORIZED CAPITAL OF WON 6,000 MILLION (US\$1.00 - WON 399); 99 PERCENT OF PAID-IN CAPITAL OF WON 3,060 MILLION SUBSCRIBED BY GOVT. AMENDMENTS TO MIB ACT AND BY-LAWS ADOPTED IN EARLY 1973 RESULTED IN SIGNIFICANT CHANGES IN ORGANIZATION, PROCEDURES AND EXPANSION SCOPE OF OPERATIONS. NEWLY-CONSTITUTED AUTONOMOUS BOARD OF DIRECTORS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 MANILA 13561 01 OF 02 060805Z

NOW DELEGATED OPERATIONAL FUNCTIONS; GOVT-DOMINATED "BOARD OF POLICY" NOW RESPONSIBLE ONLY FOR BASIC POLICY FORMULATION; SECTORAL JURISDICTION BROADENED TO INCLUDE CONSTRUCTION, COMMERCE AND SERVICE INDUSTRIES AS WELL AS MANUFACTURING, MINING AND TRANSPORT; EQUITY PARTICIPATIONS NOW AUTHORIZED (BUT NOT EXPECTED TO BE USED UNTIL 1975).

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 MANILA 13561 02 OF 02 060913Z

10

ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-10 CIAE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 CEA-02

STR-08 DRC-01 /205 W

----- 048801

P 060708Z DEC 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9578

INFO AMEMBASSY SEOUL PRIORITY

LIMITED OFFICIAL USE SECTION 2 OF 2 MANILA 13561

7. SINCE INITIATION FOREIGN BORROWINGS 1966, MIB HAS RECEIVED EIGHT FOREIGN LOANS TOTALING US\$82.3 MILLION; TWO FROM USAID (US\$8.0 MILLION); ONE FROM KREDITANSTALT FUER WIEDER AUFBAU (KFW) (US\$5.3 MILLION); TWO FROM JAPAN'S OECF (US\$5.0 MILLION); ONE FROM JAPAN'S EXIM BANK (US\$6.5 MILLION) AND TWO FROM ADB (US\$25.0 MILLION). EXCEPT FOR 2ND BANK LOAN AND EXIM LOAN, ALL ABOVE LOANS FULLY COMMITTED; MIB'S REMAINING FOREX RESOURCES EXPECTED TO BE COMMITTED EARLY 1974. MIB EXPECTED TO MEET ANNUAL US\$20-25 MILLION KOREAN SMALL AND MEDIUM INDUSTRY FOREX REQUIREMENTS NEXT FEW YEARS. UGART FROM PROPOSED BANK LOAN, ONLY OTHER FOREIGN LOAN IN IMMEDIATE MIB PIPELINE IS ADDITIONAL KFW LOAN OF US\$3.8 MILLION.

8. MIB, IN ADDITION PROVIDING CREDIT LINES, IS ONLY KOREAN FINANCING INSTITUTION FURNISHING MANAGERIAL, ENGINEERING, ACCOUNTING SERVICES TO SMALL/MEDIUM INDUSTRIES, LARGELY THROUGH UNDP/ILO ASSISTED EXTENSION SERVICES DEPARTMENT, WHICH

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MANILA 13561 02 OF 02 060913Z

HELPED 252 FIRMS IN 1972 WITH IN-PLANT  
DIAGNOSTIC

AND ADVISORY SERVICES.

9. MIB'S SUBLOAN PORTFOLIO HAS LATELY BEEN EXPANDING IN THE MEDIUM-SIZE CATEGORY WITH 7. PERCENT OF LOANS SANCTIONED IN 1973 OVER \$100,000; MORE THAN TWO-THIRDS OF ALL LOANS OVER \$250,000. THE MIB'S PREVIOUS RIUP EXPOSURE OCCASIONED BY A DISPROPORTINATE CONCENTRATION OF ITS LOANS IN TEXTILE INDUSTRY HAS REMAINED FAIRLY HIGH (29.7 PERCENT); HOWEVER 26.7 PERCENT OF LOANS ARE IN METAL PRODUCTS AND MACHINERY, AND 11 PERCENT IN CHEMICALS. ADB DOES NOT CONSIDER THIS CONCENTRATION EXCESSIVE AND MIB HAS ASSURED IT WILL TRY TO DIVERSIFY MORE. ALTHOUGH MIB'S RETURN ON EQUITY IS ONLY ABOUT 5 PERCENT, MAIN FUNCTION OF BANK NOT CONSIDERED TO BE PROFIT MAXIMIZATION; OTHER MANAGEMENT PERFORMANCE INDICATOR--ADMIN. EXPENSES AS PERCENTAGE OF LOAN PORTFOLIO--IS ACCEPTABLE 5.7 PERCENT. MORE SERIOUS IS BANK'S CONCERN ABOUT MIB'S UNDERCAPITALIZATION. DEBT/EQUITY RATIO AS OF 31 AUGUST 1973 8.9:1 COMPARES WITH RATIO 2.2:1, USING DIFFERENT FORMULA APPLIED UNDER PREVIOUS BANK LOANS, (WHICH INCLUDED ALL GOVT LOANS AS EQUITY, IRRESPECTIVE OF MATURITY DATE). GOVT ASSURES ADDITIONAL CAPITAL WILL BE PROVIDED (SEE GUARANTEE AGREEMENT, ART. II, SECT. 2.02) AND AGREES MIB MAINTAIN LIMIT OF 10:1 DEBT/EQUITY RATIO. ARREARAGES, DOWN FROM 10 PERCENT IN MID-1972 ARE STILL AT HIGH 6.4 PERCENT OF LOANS IN REPAYMENT PHASE; HOWEVER LONG-TERM AND FOREIGN CURRENCY LOANS ACCOUNT FOR ONLY 4.1 AND 2.1 PERCENT RESPECTIVELY, NOT CONSIDERED UNDULY HIGH AND AMOUNTS OVERDUE RELATIVELY SMALL. LOANS WELL SECURED.

10. DISBURSEMENT DELAYS ENCOUNTERED IN BANK'S FIRST TWO LOANS TO MIB NOW BELIEVED RESOLVED BY DISCONTINUANCE OF MINISTRY OF COMMERCE AND INDUSTRY SCREENING; INCREASE OF FREE LIMIT IN PROPOSED LOAN. FULL COMMITMENT OF SECOND LOAN EXPECTED WITHIN 1973.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MANILA 13561 02 OF 02 060913Z

11. FOREX COMPONENT OF PROPOSED SUBLOANS EXPECTED TO BE 80 PERCENT; WILL REFLECT SHIFT FROM TEXTILES TO INTERMEDIATE DEMAND-MEETING ESTABLISHMENTS ("LINKAGE INDUSTRIES") SUPPLYING MAJOR HEAVY AND CHEMICAL SECTORS NOW GIVEN PRIORITY IN ECONOMY. FREE LIMIT TO BE \$300,000, MAXIMUM LIMIT TO SINGLE BORROWER, \$600,000, RELENDING INTEREST RATE 9-1/2 PERCENT; PROCUREMENT FOR INDIVIDUAL CONTRACTS OVER \$400,000 REQUIRES INTEGRATIONAL COMPETITIVE BIDDING;

FROM \$200,000 TO \$400,000, "INTERNATIONAL SHOPPING";  
UNDER \$200,000, MIB TO ASSURED PRICES PAID BY SWUB-  
BORROWERS REASONABLE AND COMPETITIVE, GOODS BOUGHT  
ARE SUITABLE.

12. USADB BELIEVES KEY ISSUES CONFRONTING MIB ARE:

1) INADEQUATE CAPITAL STRUCTURE; 2) NEED TO FORMULATE  
POLICIES FOR DEALING WITH CHANGING INVESTMENT SITUATION,

AND 3) MANAGEMENT IMPROVEMENT THROUGH BETTER ORGANI-  
ZATION, COORDINATION OF MIB STAFF. IN DISCUSSIONS WITH  
BANK'S APPRAISAL MISSION STAFF, USADB EMPHASIZED MIB  
MUST HAVE ADEQUATE RESERVES AGAINST PROBLEM LOANS;  
SUFFICIENT EARNINGS TO ASSURE ORDERLY REPAYMENT  
OF FOREIGN LOAN WITHOUT RESORT TO ADDITIONAL BORROWINGS.  
IN STAFF VIEW, MIB'S PORTFOLIO CONSIDERED SOUND,  
AND LOW ARREARAGE RATE ON S  
REX LOANS SUGGESTS MIB  
MANAGEMENT POSSIBLY EVEN TOO CONSERVATIVE. STAFF CONSIDERS  
MIB ASSURANCES RE ADDITIONAL CAPITALIZATION SATISFACTORY  
(GUARANTEE AGREEMENT/ART. II, SECTION 2.02).  
REVISED POLICY STATEMENT, BANK BEING CONSULTED  
IN DRAFTING; STATEMENT SHOULD ASSURE CONTINUED  
SELF-SUFFICIENCY MIB MANAGEMENT, SAFEGUARD AUTONOMY  
OF MIB BOARD.

13. BANK BELIEVES RECENT MIB ORGANIZATIONAL  
CHANGES-- ESPECIALLY EXTENSION SERVICES DEPT.  
LINKAGE WITH PROBLEM PROJECTS UNIT, IMPROVEMENT OF  
MARKETING, APPRAISAL CAPABILITIES, PLANS TO ESTABLISH  
EQUITY UNIT--ALL REFLECT RESPONSIVENESS MIB  
MANAGEMENT TO CHANGES IN THEIR OPERATIONAL ENVIRONMENT,  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 MANILA 13561 02 OF 02 060913Z

FLEXIBILITY TO DEAL WITH FUTURE CHANGES. USADB  
SUPPORTS LOAN PROPOSAL AND RECOMMENDS FAVORABLE NAC  
ACTION. REQUEST EMBASSY SEOUL COMMENTS FOR NAC  
AGENCIES, INFO USADB MANILA, PURSUANT TO STATE  
119795 DTD. 3 JULY 1972.  
SUPYIVAN

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** COSTS, TECHNICAL ASSISTANCE, MINING, TRANSPORTATION, TEXTILES, CONSTRUCTION, DEVELOPMENT LOANS, FOREIGN EXCHANGE, LOAN GUARANTEES, INDUSTRIAL PLANT S, JOINT VENTURES, SMALL BUSINESS, ECONOMIC PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 06 DEC 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** golinofr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973MANILA13561  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** n/a  
**From:** MANILA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1973/newtext/t19731241/aaaabedc.tel  
**Line Count:** 321  
**Locator:** TEXT ON-LINE  
**Office:** ACTION TRSE  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** golinofr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 06 DEC 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <06-Dec-2001 by cunninfx>; APPROVED <21-Dec-2001 by golinofr>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PROPOSED ADB LOAN TO MEDIUM INDUSTRY BANK OF KOREA SUMMARY: ADB MANAGEMENT PROPOSES \$30 MILLION  
**TAGS:** EAID, EFIN, KS, ADB-1  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005